# PERAC AUDIT REPORT

## Winchester
## Contributory Retirement System

JAN. 1, 2013 - DEC. 31, 2016

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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May 1, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Winchester Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2016. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of the finding presented in this report.

In closing, I acknowledge the work of examiners George Nsia and Michael Nicolazzo who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

John W. Parsons, Esq.
Executive Director

# EXPLANATION OF FINDING AND RECOMMENDATION

**1. Retirees' Retirement Allowance**

We reviewed the payroll records used to calculate the three-year average salary for retirees' retirement allowance. We noted that the "Master Officer" stipend was included in the calculation of one retirement allowance. Pursuant to 840 CMR 15.03 (3) (b), the "Master Officer" stipend does not qualify as regular compensation because of the following: participation in the program is voluntary, not available to everyone, the program fails to define measurable duties and appears to be a targeted plan in anticipation of retirement.

The "Master Officer" stipend is currently set up for retirement withholdings in the payroll software.

**Recommendation**: The Board should recalculate the three-year average salary without this stipend included and return the deductions withheld in error. The payroll department should be instructed to stop taking deductions from this pay type.

***Board Response:***

The Board has responded through a letter from their Legal Counsel stating their disagreement with the above finding and has asked for appeal rights to appeal PERAC's decision to the Division of Administrative Appeals.

**FINAL DETERMINATION**:

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

| | AS OF DECEMBER 31, 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Net Assets Available For Benefits:** | | | | |
| Cash | $3,332,039 | $1,986,762 | $2,242,014 | $2,147,194 |
| Pooled Domestic Equity Funds | 38,666,215 | 34,513,991 | 34,901,083 | 31,526,208 |
| Pooled International Equity Funds | 20,837,556 | 20,198,755 | 20,956,510 | 22,235,005 |
| Pooled Domestic Fixed Income Funds | 34,078,024 | 38,027,849 | 38,372,095 | 34,571,225 |
| Pooled Real Estate Funds | 6,020,303 | 2,475,625 | 2,238,987 | 1,968,392 |
| Hedge Funds | 5,096,163 | 4,885,144 | 4,977,726 | 4,714,210 |
| Interest Due and Accrued | 1,616 | 299 | 0 | 0 |
| Accounts Receivable | 3,581 | 3,754 | 6,383 | 1,265 |
| Accounts Payable | (35,851) | (54,914) | (679) | (6,331) |
| **Total** | $107,999,646 | $102,037,265 | $103,694,119 | $97,157,167 |
| **Fund Balances:** | | | | |
| Annuity Savings Fund | $22,842,491 | $22,063,598 | $21,057,192 | $20,565,335 |
| Annuity Reserve Fund | 5,273,244 | 5,125,460 | 5,079,591 | 4,904,674 |
| Pension Fund | 3,147,647 | 3,345,595 | 3,585,155 | 3,204,837 |
| Military Service Fund | 17,167 | 6,258 | 6,252 | 6,245 |
| Expense Fund | 0 | 0 | 0 | 0 |
| Pension Reserve Fund | 76,719,097 | 71,496,354 | 73,965,930 | 68,476,076 |
| **Total** | $107,999,646 | $102,037,265 | $103,694,119 | $97,157,167 |

# STATEMENT OF CHANGES IN FUND BALANCES

| | Annuity Savings Fund | Annuity Reserve Fund | Pension Fund | Military Service Fund | Expense Fund | Pension Reserve Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| Beginning Balance (2013) | $19,805,922 | $5,013,465 | $877,366 | $6,239 | $0 | $61,881,840 | $87,584,832 |
| Receipts | 1,761,574 | 144,835 | 4,218,444 | 6 | 358,941 | 10,452,196 | 16,935,996 |
| Interfund Transfers | (694,607) | 706,975 | 3,845,592 | 0 | 0 | (3,857,960) | 0 |
| Disbursements | (307,553) | (960,602) | (5,736,565) | 0 | (358,941) | 0 | (7,363,661) |
| Ending Balance (2013) | 20,565,335 | 4,904,674 | 3,204,837 | 6,245 | 0 | 68,476,076 | 97,157,167 |
| Receipts | 1,921,626 | 149,079 | 4,279,388 | 6 | 336,738 | 7,450,204 | 14,137,041 |
| Interfund Transfers | (1,027,755) | 1,029,403 | 1,958,703 | 0 | 0 | (1,960,351) | 0 |
| Disbursements | (402,014) | (1,003,566) | (5,857,773) | 0 | (336,738) | 0 | (7,600,090) |
| Ending Balance (2014) | 21,057,192 | 5,079,591 | 3,585,155 | 6,252 | 0 | 73,965,930 | 103,694,119 |
| Receipts | 2,238,792 | 156,237 | 4,395,036 | 6 | 401,445 | (873,820) | 6,317,696 |
| Interfund Transfers | (1,003,718) | 1,003,718 | 1,595,755 | 0 | 0 | (1,595,755) | 0 |
| Disbursements | (228,722) | (1,114,032) | (6,230,351) | 0 | (401,445) | 0 | (7,974,550) |
| Ending Balance (2015) | 22,063,544 | 5,125,513 | 3,345,595 | 6,258 | 0 | 71,496,354 | 102,037,265 |
| Receipts | 2,308,709 | 159,667 | 4,715,589 | 10,909 | 391,270 | 6,675,591 | 14,261,736 |
| Interfund Transfers | (1,267,241) | 1,267,241 | 1,452,849 | 0 | 0 | (1,452,849) | 0 |
| Disbursements | (262,522) | (1,279,177) | (6,366,386) | 0 | (391,270) | 0 | (8,299,355) |
| Ending Balance (2016) | $22,842,491 | $5,273,244 | $3,147,647 | $17,167 | $0 | $76,719,097 | $107,999,646 |

# STATEMENT OF RECEIPTS

| | FOR THE PERIOD ENDING DECEMBER 31, 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Annuity Savings Fund:** | | | | |
| Members Deductions | $1,891,984 | $1,827,796 | $1,740,433 | $1,683,395 |
| Transfers from Other Systems | 382,577 | 292,784 | 64,627 | 33,524 |
| Member Make Up Payments and Re-deposits | 0 | 2,344 | 6,831 | 19,963 |
| Member Payments from Rollovers | 1,773 | 93,136 | 75,167 | 0 |
| Investment Income Credited to Member Accounts | 32,376 | 22,731 | 34,568 | 24,692 |
| Sub Total | 2,308,709 | 2,238,792 | 1,921,626 | 1,761,574 |
| **Annuity Reserve Fund:** | | | | |
| Investment Income Credited to the Annuity Reserve Fund | 159,667 | 156,237 | 149,079 | 144,835 |
| **Pension Fund:** | | | | |
| 3 (8) (c) Reimbursements from Other Systems | 251,127 | 252,186 | 253,003 | 233,335 |
| Received from Commonwealth for COLA and Survivor Benefits | 138,328 | 87,324 | 119,815 | 136,769 |
| Pension Fund Appropriation | 4,299,134 | 4,055,526 | 3,906,570 | 3,845,592 |
| Settlement of Workers' Compensation Claims | 27,000 | 0 | 0 | 0 |
| Recovery of 91A Overearnings | 0 | 0 | 0 | 2,748 |
| Sub Total | 4,715,589 | 4,395,036 | 4,279,388 | 4,218,444 |
| **Military Service Fund:** | | | | |
| Contribution Received from Municipality on Account of Military Service | 10,903 | 0 | 0 | 0 |
| Investment Income Credited to the Military Service Fund | 6 | 6 | 6 | 6 |
| Sub Total | 10,909 | 6 | 6 | 6 |
| **Expense Fund:** | | | | |
| Investment Income Credited to the Expense Fund | 391,270 | 401,445 | 336,738 | 358,941 |
| Sub Total | 391,270 | 401,445 | 336,738 | 358,941 |
| **Pension Reserve Fund:** | | | | |
| Interest Not Refunded | 1,286 | 849 | 365 | 3,901 |
| Miscellaneous Income | 14 | 0 | 285 | 59 |
| Excess Investment Income | 6,674,291 | (874,669) | 7,449,555 | 10,448,236 |
| Sub Total | 6,675,591 | (873,820) | 7,450,204 | 10,452,196 |
| **Total Receipts, Net** | $14,261,736 | $6,317,696 | $14,137,041 | $16,935,996 |

# STATEMENT OF DISBURSEMENTS

| | FOR THE PERIOD ENDING DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 |
| **Annuity Savings Fund:** | | | | |
| Refunds to Members | $163,045 | $96,066 | $150,092 | $51,977 |
| Transfers to Other Systems | 99,477 | 132,656 | 251,922 | 255,577 |
| Sub Total | 262,522 | 228,722 | 402,014 | 307,553 |
| **Annuity Reserve Fund:** | | | | |
| Annuities Paid | 1,180,863 | 1,100,582 | 1,003,566 | 960,602 |
| Option B Refunds | 98,314 | 13,450 | 0 | 0 |
| Sub Total | 1,279,177 | 1,114,032 | 1,003,566 | 960,602 |
| **Pension Fund:** | | | | |
| Pensions Paid: | | | | |
| Regular Pension Payments | 4,284,375 | 4,049,237 | 3,766,300 | 3,632,548 |
| Survivorship Payments | 541,895 | 553,673 | 562,950 | 584,509 |
| Ordinary Disability Payments | 38,401 | 39,224 | 46,751 | 45,675 |
| Accidental Disability Payments | 715,492 | 727,743 | 689,417 | 716,196 |
| Accidental Death Payments | 362,820 | 364,249 | 348,820 | 329,155 |
| Section 101 Benefits | 20,519 | 19,921 | 23,121 | 25,837 |
| 3 (8) (c) Reimbursements to Other Systems | 312,198 | 388,980 | 300,599 | 265,877 |
| State Reimbursable COLA's Paid | 90,686 | 87,324 | 119,815 | 136,769 |
| Sub Total | 6,366,385 | 6,230,351 | 5,857,773 | 5,736,565 |
| **Expense Fund:** | | | | |
| Board Member Stipend | 3,000 | 3,000 | 1,500 | 3,000 |
| Salaries* | 88,970 | 96,327 | 36,690 | 66,500 |
| Legal Expenses | 4,181 | 21,188 | 10,153 | 10,041 |
| Travel Expenses | 0 | 1,665 | 296 | 62 |
| Administrative Expenses | 1,058 | 1,404 | 1,561 | 3,943 |
| Education and Training | 370 | 810 | 349 | 522 |
| Furniture and Equipment | 0 | 0 | 0 | 1,000 |
| Management Fees | 209,226 | 206,094 | 218,381 | 210,973 |
| Custodial Fees | 59,838 | 47,405 | 45,266 | 41,429 |
| Service Contracts | 19,425 | 18,500 | 17,625 | 16,785 |
| Fiduciary Insurance | 5,202 | 5,051 | 4,917 | 4,686 |
| Sub Total | 391,270 | 401,445 | 336,738 | 358,941 |
| **Total Disbursements** | $8,299,355 | $7,974,550 | $7,600,090 | $7,363,661 |

* 2014 Salaries includes only 5 months of salaries & benefits (July -November), December salary & benefits are included in the 2015 amount (13 months). The Retirement Board did not reimburse the Town for the first 6 months of 2014 salaries, benefits, and board member stipends.

# INVESTMENT INCOME

| | FOR THE PERIOD ENDING DECEMBER 31, 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Investment Income Received From:** | | | | |
| Cash | $11,005 | $907 | $127 | $705 |
| Pooled or Mutual Funds | 889,694 | 833,435 | 954,274 | 1,226,704 |
| **Total Investment Income** | 900,699 | 834,342 | 954,402 | 1,227,409 |
| **Plus:** | | | | |
| Realized Gains | 944,873 | 1,210,910 | 1,084,346 | 562,802 |
| Unrealized Gains | 14,557,654 | 11,249,488 | 12,924,718 | 14,786,646 |
| Interest Due and Accrued - Current Year | 1,616 | 299 | 0 | 0 |
| Sub Total | 15,504,143 | 12,460,697 | 14,009,063 | 15,349,448 |
| **Less:** | | | | |
| Realized Loss | (70,340) | (92,297) | (14,566) | (203,838) |
| Unrealized Loss | (9,076,593) | (13,496,991) | (6,978,953) | (5,396,087) |
| Interest Due and Accrued - Prior Year | (299) | 0 | 0 | (221) |
| Sub Total | (9,147,231) | (13,589,289) | (6,993,519) | (5,600,146) |
| **Net Investment Income** | 7,257,610 | (294,249) | 7,969,946 | 10,976,711 |
| **Income Required:** | | | | |
| Annuity Savings Fund | 32,376 | 22,731 | 34,568 | 24,692 |
| Annuity Reserve Fund | 159,667 | 156,237 | 149,079 | 144,835 |
| Military Service Fund | 6 | 6 | 6 | 6 |
| Expense Fund | 391,270 | 401,445 | 336,738 | 358,941 |
| **Total Income Required** | 583,319 | 580,420 | 520,391 | 528,475 |
| Net Investment Income | 7,257,610 | (294,249) | 7,969,946 | 10,976,711 |
| Less: Total Income Required | 583,319 | 580,420 | 520,391 | 528,475 |
| **Excess Income (Loss) To The Pension Reserve Fund** | $6,674,291 | ($874,669) | $7,449,555 | $10,448,236 |

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

| | AS OF DECEMBER 31, 2016 | |
|---|---|---|
| | MARKET VALUE | PERCENTAGE OF TOTAL ASSETS |
| Cash | $3,332,039 | 3.1% |
| Pooled Domestic Equity Funds | 38,666,215 | 35.8% |
| Pooled International Equity Funds | 20,837,556 | 19.3% |
| Pooled Domestic Fixed Income Funds | 34,078,024 | 31.5% |
| Pooled Real Estate Funds | 6,020,303 | 5.6% |
| Hedge Funds | 5,096,163 | 4.7% |
| **Grand Total** | $108,030,299 | 100.0% |

For the year ending December 31, 2016, the rate of return for the investments of the Winchester Retirement System was 7.30%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Winchester Retirement System averaged 7.70%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Winchester Retirement System was 8.90%.

The composite rate of return for all retirement systems for the year ending December 31, 2016 was 8.08%. For the five-year period ending December 31, 2016, the composite rate of return for the investments of all retirement systems averaged 9.12%. For the 31-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

# SUPPLEMENTARY INVESTMENT REGULATIONS

The Winchester Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 22, 2006
16.08**:** In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to make a modest modification to its equity management mandate with State Street Global Advisors. Currently, SSGA's asset allocation group has discretionary authority to manage about 30% of Winchester's total portfolio by investing in five of SSGA's domestic and international equity funds, all of which have been authorized by PERAC. The Board will now authorize SSGA to also invest opportunistically in SSGA's Real Asset Strategy, which is a fund-of-funds that invests in four index funds involving REITs, commodities, natural resource stocks, and TIPS. While investment in such a strategy would ordinarily require a separate search process, the Board feels that a search would not be productive because it is seeking to invest only opportunistically in this product, as opposed to having a permanent commitment, and since the typical position in this strategy will likely not exceed $1 million. The Board has had a satisfactory relationship with SSGA and has carefully considered the merits of the Real Asset Strategy.

February 11, 2004
16.08**:** The Winchester Retirement Board is authorized to make a modification to their existing international equity mandate with State Street Global Advisors. The board's existing international equity funds are primarily invested in large-cap securities. In order to achieve greater diversification in its international equity holdings, the board intends to allocate a relatively small proportion of its international equity portfolio to SSGA's Active International Small Cap Securities Lending Common Trust Fund. The Board has had a satisfactory relationship with SSGA and its international equity team since 1998, and the fund being added has had a very strong performance record since its inception in 1997.

February 26, 2003
16.08**:** In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to invest in the SSGA International Alpha Fund. As part of its portfolio rebalancing, the Board is adding to its holdings in international equity. In accomplishing this, the Board is supplementing its current investment in the SSGA International Growth Opportunities Fund by initiating an investment in the SSGA International Alpha Fund. Both funds have an MSCI-EAFE benchmark, with the existing fund having a growth "tilt" and the Alpha Fund a "value" tilt. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

June 21, 2002
Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations the Winchester Retirement Board may invest funds of the Winchester Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund), and while the assets of the System are so invested,

**(i)** the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP would not be treated as plan assets under ERISA; and

(ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

1. The Winchester board may invest funds of the Town of Winchester Retirement System (the "System") with the real estate investment fund known as the Guggenheim Plus Real Estate Trust (the "Fund"), and while the assets of the System are so invested, the activities and the investments of the Fund and the affiliated and unaffiliated underlying funds and accounts in which the Fund invests, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), taking into account ERISA Section 408(b)(8), Prohibited Transaction Class Exemption 91-38, Prohibited Transaction Class Exemption 84-14, and 29 CFR § 2510.3-101.

2. The limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment. For purposes of applying the limitation set forth in 840 CMR Section 19.01(6)(c), the Fund's investment in affiliated entities shall be treated as invested in the investments directly or indirectly held by these entities, pro rata based on the Fund's indirect net investment in each.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Winchester Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

**Group 1**:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

**Group 2:**

Certain specified hazardous duty positions.

**Group 4:**

Police officers, firefighters, and other specified hazardous positions.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

| | |
|---|---|
| Prior to 1975: | 5% of regular compensation |
| 1975 - 1983: | 7% of regular compensation |
| 1984 to 6/30/96: | 8% of regular compensation |
| 7/1/96 to present: | 9% of regular compensation |
| 1979 to present: | an additional 2% of regular compensation in excess of $30,000. |

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

## RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

## RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

## SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a) (17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

## DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

## DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

## ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $871.56 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

## ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $871.56 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $150,000 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

## DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

# NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Winchester Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership
August 1, 1978
(a), a "Regular Status" employee who works at least twenty (20) hours per week for at least thirty-two (32) weeks per year shall become members of the retirement system.

b) Effective August 1, 1978, all employees who are employed in a temporary, seasonal, provisional, or intermittent capacity shall not be eligible for membership in the retirement system, unless a shorter period is immediately proceeded by permanent employment.

Creditable Service
May 10, 2011
Current members of the Winchester Retirement Board (sic) who are eligible to purchase prior non-membership time earned in any other governmental unit must file a request to purchase such time within 180 days from the date in (sic) which the Application of New Member was submitted. The Winchester Retirement Board will not allow any prior service buy-backs that have been requested after the 180 days have expired. The payment of any such buyback must be made in one lump sum payment. Creditable service shall be granted equal to the period of service multiplied by a fraction, no greater than 1, the numerator of which is the actual hours worked each week divided by the number of hours in a full time position currently being held in the Town of Winchester.

The Winchester Retirement Board will not accept liability for any member whose employment was intermittent, sporadic and limited in nature.

November 29, 2007
(a), any part-time employee who qualifies for Membership shall receive one year of creditable service provided that they work the hours required by their position and provided their entire service is on a part-time position.

(b) Subject to verification as specified by the Town any part-time employee who qualifies for membership and becomes full-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.

(c) Subject to verification as specified by the Town any full-time employee who qualifies or membership who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.

Miscellaneous
February 20, 2014
Correction of Errors under G.L. c. 32, § 20(5)(c)(2)
In all cases of correction of an underpayment or non-payment of a pension or benefit to a member or beneficiary of the Winchester Retirement System which results in a onetime retroactive payment

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

of benefits, such payment shall include interest for such period of underpayment or non-payment at the rate annually determined for such period by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

In all cases of a correction of an overpayment of a pension or benefit to a member or beneficiary of the Winchester Retirement System, the amount of overpayment shall be due from the member or beneficiary, along with interest for said period of overpayment at the rate annually determined by the Public Employee Retirement Administration Commission pursuant to G.L. c. 32, § 22(6).

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

| | | | |
|---|---|---|---|
| Ex-officio Member: | Stacie Ward | | |
| Appointed Member: | William G. Zink | Term Expires: | 02/12/22 |
| Elected Member: | James B. Gray | Term Expires: | 07/31/21 |
| Elected Member: | Robert A. Frary | Term Expires: | 10/31/19 |
| Appointed Member: | George F. Morrissey, Chair | Term Expires: | 08/28/20 |

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration as of January 1, 2017.

| | |
|---|---|
| The actuarial liability for active members was | $69,532,967 |
| The actuarial liability for inactive participants | 1,809,283 |
| The actuarial liability for retired members and survivors was | 70,054,759 |
| The total actuarial liability was | $141,397,009 |
| System assets as of that date were (actuarial value) | 111,682,239 |
| The unfunded actuarial liability was | $29,714,770 |
| The ratio of system's assets to total actuarial liability was | 79.0% |
| As of that date the total covered employee payroll was | $19,743,872 |

| | |
|---|---|
| The normal cost for employees on that date was | 8.7% of payroll |
| The normal cost for the employer was | 7.6% of payroll |

The principal actuarial assumptions used in the valuation are as follows:

| | |
|---|---|
| Investment Return: | 7.00% per annum |
| Rate of Salary Increase: | 4.25%-7% based upon service and group |

### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2017

| Actuarial Valuation Date | Actuarial Value of Assets ( a ) | Actuarial Accrued Liability ( b ) | Unfunded AAL (UAAL) ( b-a ) | Funded Ratio ( a/b ) | Covered Payroll ( c ) | UAAL as a % of Cov. Payroll ( (b-a)/c ) |
|---|---|---|---|---|---|---|
| 1/1/2017 | $111,682,239 | $141,397,009 | $29,714,770 | 79.0% | $19,743,872 | 150.5% |
| 1/1/2015 | $101,020,225 | $128,941,487 | $27,921,262 | 78.3% | $18,547,453 | 150.5% |
| 1/1/2013 | $87,580,900 | $113,111,279 | $25,530,379 | 77.4% | $17,971,254 | 142.1% |
| 1/1/2011 | $87,706,904 | $103,787,043 | $16,080,139 | 84.5% | $17,195,132 | 93.5% |
| 1/1/2009 | $74,020,553 | $97,377,892 | $23,357,339 | 76.0% | $16,879,293 | 138.4% |

## NOTE 6 - MEMBERSHIP EXHIBIT

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Retirement in Past Years** | | | | | | | | | | |
| Superannuation | 3 | 7 | 11 | 13 | 9 | 6 | 9 | 10 | 14 | 11 |
| Ordinary Disability | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accidental Disability | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Retirements** | 3 | 8 | 11 | 13 | 9 | 6 | 9 | 10 | 14 | 11 |
| Total Retirees, Beneficiaries and Survivors | 304 | 287 | 287 | 281 | 281 | 276 | 271 | 265 | 272 | 272 |
| Total Active Members | 362 | 347 | 345 | 351 | 365 | 366 | 364 | 367 | 373 | 364 |
| **Pension Payments** | | | | | | | | | | |
| Superannuation | $2,865,517 | $2,933,817 | $2,964,055 | $3,181,804 | $3,399,744 | $3,512,808 | $3,632,548 | $3,766,300 | $4,049,237 | $4,284,375 |
| Survivor/Beneficiary Payments | 497,991 | 516,835 | 546,059 | 526,289 | 562,692 | 600,578 | 584,509 | 562,950 | 553,673 | 541,895 |
| Ordinary Disability | 39,923 | 40,435 | 41,464 | 42,502 | 43,549 | 44,607 | 45,675 | 46,751 | 39,224 | 38,401 |
| Accidental Disability | 749,621 | 774,463 | 789,804 | 707,400 | 708,536 | 707,400 | 716,196 | 689,417 | 727,743 | 715,492 |
| Other | 604,047 | 605,981 | 679,414 | 883,847 | 737,462 | 734,661 | 757,638 | 792,354 | 860,474 | 786,222 |
| **Total Payments for Year** | $4,757,099 | $4,871,531 | $5,020,796 | $5,341,842 | $5,451,983 | $5,600,054 | $5,736,565 | $5,857,773 | $6,230,351 | $6,366,385 |

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December 4, 2019

George Morrissey, Chairman
Winchester Retirement Board
71 Mount Vernon Street
Town Hall
Winchester, MA 01890

**REFERENCE:** Report of the Examination of the Winchester Retirement Board for the four-year period from January 1, 2013 through December 31, 2016.

Dear Chairman Morrissey:

The Public Employee Retirement Administration Commission has completed a follow-up review of the finding and recommendation contained in its audit report of the Winchester Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendation contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

***1. The Audit Report cited a finding that the calculation of one retiree's retirement allowance included a "Master Officer" stipend, which does not qualify as regular compensation but is currently set up for retirement withholdings in the payroll software system.***

**Follow-up Result**: The Board has appealed PERAC's decision to the Division or Administrative Law Appeals. This issue is not resolved.

The additional matters discussed have been reviewed and have been mostly resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Winchester Retirement Board to correct some of the issues from the most recent examination of the system. PERAC auditors may conduct an additional follow-up visit to ensure progress is being made in those areas that have not been corrected at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons, Esq.
Executive Director